

NYE-DT 21

Apache Corporation

Resignation of Exploration Head Highlights Suriname Risk to Share Price

Oil & Gas Exploration & Production | Company Update

APA

Target price (12M, US\$)

20.00

Neutral^[V]

- **Senior VP of Worldwide Exploration (Steven Keenan) resigns.** For reference, Mr. Keenan moved from EOG to APA in 2014 as Regional VP of Unconventional Resources and subsequently oversaw the discovery of the Alpine High play, which has been an economic disappointment for investors (at least partly due to depressed natural gas and NGL prices). Nonetheless, since APA unveiled the play in September 2016, its shares have underperformed global E&Ps by >30%, likely a cause for Mr. Keenan's resignation. More recently, APA has ventured into Suriname where it is currently drilling one of the most highly-anticipated exploration wells of the year, given close proximity to the Stabroek block offshore Guyana where >6 BBoe of oil-weighted resource has been discovered to date.
- **Timing of resignation is concerning.** While Mr. Keenan's exact role in Suriname is not clear (APA claims the resignation is not connected to the exploration prospect), APA is underperforming peers by >5% today given the timing of the departure of the head of Worldwide Exploration when the company is on the 31st day of drilling the Suriname well, i.e. is now within the expected 30-60 day spud-to-TD window. Today's sell-off nonetheless highlights the high expectations for the well already baked into APA's stock price (more detail below).
- **Suriname discovery more than baked in already; we see considerable downside risk if well is dry.** At current strip prices, we have APA trading at a ~1-2 turn premium to peers on 2020-21E EV/DACF (vs. its historical >1x discount) despite >60% of its cash flow coming from lower-multiple North Sea/Egypt assets. Given its wide relative premium, we estimate shares have priced in a >750 MMBoe discovery in Suriname already & could see meaningful downside risk in the event the well is unsuccessful: we'd note our 2P NAV (which excludes any Suriname value) at strip prices is ~\$10/share. Getting to a 2020 EV/DACF multiple more in line with peers implies a stock price in the mid-to-high teens.
- **Expensive vs. peers.** Our \$20 TP is based on ~5.0x normalized 2020E DACF.

Price (24 Oct 19, US\$)	23.23
52-week price range	37.83 - 19.93
Market cap (US\$ m)	8,733.53
Enterprise value (US\$ m)	19,100
[V] = Stock Considered Volatile (see Disclosure Appendix)	

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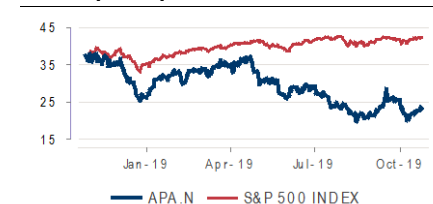
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Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
EBITDX (US\$ m)	4,904.0	3,952.7	3,735.3	3,802.6
CFPS (US\$)	8.10	7.10	7.30	7.45
Prev. CFPS (US\$)	-	-	-	-
DACF	3,325.4	2,858.5	3,081.6	3,170.7
ROACE (%)	0.06	0.02	0.01	0.01
EV/EBITDX	3.7	4.5	4.8	4.7
EV/DACF	5.4	6.3	5.8	5.7
Net debt (US\$ m)	9,250	10,367	10,859	11,431
EPS (CS Adj.) (US\$)	1.77	0.35	-0.20	-0.30
Dividend (current qtr., US\$)	376.2	Dividend yield (%)		4.3
Net debt (current, US\$)	10,226.4	Net debt/Cap (%)		0.61
NAV/share (12/19E, US\$ m)	13.86	Net debt/EBITDX (x)		2.62
P/NAV (x)	1.7	Number of shares (m)		376.0
Free float (%)	89.8			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 24-Oct-2019 the S&P 500 INDEX closed at 3010.29Daily
Oct25, 2018 - Oct24, 2019, 10/25/18 = US\$38.15

Quarterly CFPS	Q1	Q2	Q3	Q4
2018A	1.76	2.07	2.27	2.00
2019E	1.76	1.62	1.55	2.16
2020E				

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25 October 2019

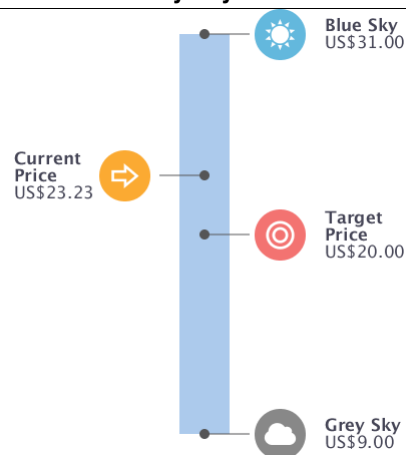
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Apache Corporation (APA)Analyst: **William Featherston**Price (24 Oct 2019): **US\$23.23**Target Price: **20.00**Rating: **Neutral [V]**

Income Statement	12/18A	12/19E	12/20E	12/21E
EBITDX (US\$ m)	4,904	3,953	3,735	3,803
DACF	3,325	2,858	3,082	3,171
Net interest income (exp)	384	393	400	400
Net non operating inc (exp)	0	0	5	12
Share of associates/JVs' equity	-	-	-	-
Exceptionals	0	0	5	12
Profit before tax (US\$ m)	1,718	728	279	248
Taxes	772	399	112	99
Profit after tax	946	330	168	149
Extraordinary gain/(loss)	0	0	0	0
Non-controlling interest (minority)	-	-	-	-
Preferred dividends	-	-	-	-
Adjusted net income (US\$ m)	946	330	168	149
Cash Flow	12/18A	12/19E	12/20E	12/21E
Change in working capital	245	40	0	0
Other cash and non-cash items	1,430	1,699	2,109	2,216
Cash flow from operations	3,777	2,860	2,783	2,852
Capex	(3,771)	(4,168)	(2,619)	(2,745)
Acquisitions	(133)	(34)	(34)	(34)
Divestments	-	-	-	-
Other investment/(outflows)	-	-	-	-
Cashflow from investment	(3,944)	(3,556)	(2,653)	(2,779)
Operating cash flow	3,777.0	2,860.0	2,783.2	2,852.2
Balance Sheet	12/18A	12/19E	12/20E	12/21E
Cash and cash equivalents	2,687	2,711	2,608	2,606
Other current assets	0	0	0	0
Total current assets	2,687	2,711	2,608	2,606
Total fixed assets	18,421	18,211	18,129	18,079
Other assets	474	1,259	1,259	1,259
Total assets	21,582	22,181	21,996	21,944
Total current liabilities	2,201	2,262	2,262	2,262
Long-term debt	8,054	8,692	9,081	9,651
Other Liabilities	2,515	2,797	2,921	3,059
Total liabilities	12,770	13,751	14,264	14,973
Shareholders' equity	7,130	6,307	5,608	4,847
Minority interest	1,682	2,124	2,124	2,124
Total equity and liabilities	21,582	22,181	21,996	21,944
Per share	12/18A	12/19E	12/20E	12/21E
Equiv. FPO (period Avg.) (mn)	383.25	376.48	378.96	380.96
CFPS (US\$)	8.10	7.10	7.30	7.45
Prev. CFPS (US\$)	-	-	-	-
DPS (US\$)	1.00	1.00	1.00	1.00
Total Production	12/18A	12/19E	12/20E	12/21E
Total Production (MBoed)	465.9	471.0	488.4	506.6
Oil Production (MBbld)	245.4	241.2	238.0	235.2
NGL Production (MBbld)	59.6	73.2	97.9	110.1
Gas Production (MMcfd)	965.5	939.7	914.9	967.7
Valuation	12/18A	12/19E	12/20E	12/21E
Dividend yield (%)	4.3	4.3	4.3	4.3
FCF yield (%)	(16.5)	3.2	(0.2)	(4.2)
EV/EBITDX (x)	3.7	4.5	4.8	4.7
Returns	12/18A	12/19E	12/20E	12/21E
ROE (%)	0.09	0.02	(0.01)	(0.02)
ROACE (avg.) (%)	0.06	0.02	0.01	0.01
Gearing	12/18A	12/19E	12/20E	12/21E
Net debt/Cap (%)	105.0	123.0	140.4	164.0
Interest coverage ratio (X)	5.5	2.9	1.7	1.6

Company Background

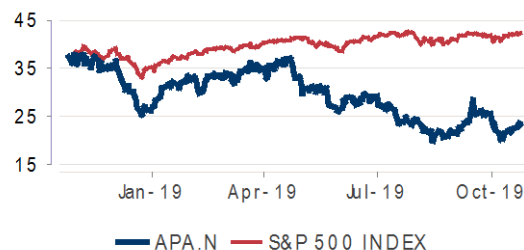
Apache is an oil and gas exploration and production company engaged in the acquisition, exploration, development, and production of oil and gas in the onshore US, Gulf of Mexico, Egypt, and North Sea.

Blue/Grey Sky Scenario**Our Blue Sky Scenario (US\$)****31.00**

Our Blue Sky Scenario assumes a flat \$10/Bbl and \$0.25/MMBtu premium to the Credit Suisse long-term, normalized price deck. However, we note that at these oil and gas prices, APA would be generating additional free cash flow versus our base case. This extra cash would allow the company to accelerate drilling activity which could provide additional upside.

Our Grey Sky Scenario (US\$)**9.00**

Our Grey Sky Scenario assumes a \$10/Bbl and \$0.25/MMBtu discount to the Credit Suisse long-term, normalized price deck. However, we note that at these oil and gas prices, APA would be generating less free cash flow which could mean lower drilling activity than our base case. Under this scenario, value would be deferred and further downside could be warranted.

Share price performance

On 24-Oct-2019 the S&P 500 INDEX closed at 3010.29
Daily Oct25, 2018 - Oct24, 2019, 10/25/18 = US\$38.15

Source: Company data, Refinitiv, Credit Suisse estimates

25 October 2019



Companies Mentioned (Price as of 24-Oct-2019)
Apache Corporation (APA.N, \$23.23, NEUTRAL[V], TP \$20.0)

Disclosure Appendix

Analyst Certification

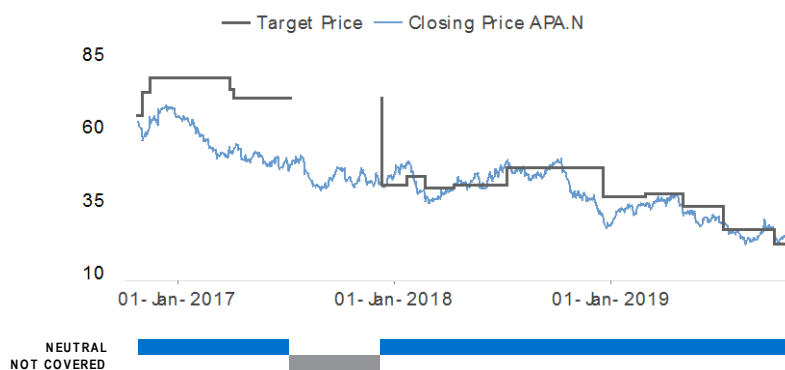
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3-Year Price and Rating History for Apache Corporation (APA.N)

APA.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
26-Oct-16	61.68	64.00	N
03-Nov-16	55.52	72.00	
15-Nov-16	63.39	77.00	
30-Mar-17	52.09	73.00	
06-Apr-17	52.96	70.00	
10-Jul-17	47.11		NC
11-Dec-17	40.19	40.00	N *
22-Jan-18	47.66	43.00	
22-Feb-18	34.85	39.00	
12-Apr-18	39.38	40.00	
10-Jul-18	48.61	46.00	
19-Dec-18	28.75	36.00	
28-Feb-19	33.18	37.00	
02-May-19	29.78	33.00	
09-Jul-19	26.95	25.00	
03-Oct-19	23.37	20.00	

* Asterisk signifies initiation or assumption of coverage.

Effective July 3, 2016, NC denotes termination of coverage.



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25 October 2019



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Neutral/Hold*	38%	(27% banking clients)
Underperform/Sell*	13%	(23% banking clients)
Restricted	2%	

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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Apache Corporation (APA.N)

Method: Our 12-month target price of \$20 per share for Apache Corp. assumes the stock trades to ~5x normalized 2020E DCF, in line with its historical average. Our Neutral rating is a function of total shareholder return over the next twelve months and the relative risk/reward versus our coverage universe.

Risk: We see several risks to APA achieving our \$20 TP and our Neutral rating. APA has >10% of its production coming from Egypt, where political, social and economic conditions in the country could significantly worsen, and may lead to a reduction in the company's production, profits and stock price. In general, oil and gas companies are subject to changes in global commodity supply/demand, as well as geopolitical related issues that could adversely affect the company's ability to achieve our TP and could potentially lower our Rating.

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25 October 2019



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This research report is authored by:

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